

**MICHIGAN DEPARTMENT OF EDUCATION
OFFICE OF FINANCIAL MANAGEMENT
Intermediate School Districts
Indirect Cost Rate Application and Instructions
April 2004**

What are indirect costs?

Indirect costs are defined as costs that are incurred for the benefit of more than one cost objective, but are not readily assignable to any program. Indirect costs serve common or joint purposes, and to identify the specific program or project served would take an effort disproportionate to the results achieved. Typically, salaries and expenses for auditing, budgeting, payroll, personnel, purchasing and employee relations are examples of costs that are considered to be indirect costs.

What is an indirect cost rate and why should my organization be interested in obtaining an approved indirect cost rate?

An indirect cost rate is a ratio, based upon the costs of all operations of the organization, which proportions indirect costs to direct costs. Direct costs are defined as those costs that are readily identified with a grant, contract, project, function or activity. The total direct costs of any grant or activity can be multiplied by this indirect cost ratio, thus providing a reasonable approximation of the indirect costs of that grant or activity. The full cost of the activity includes both the direct costs and the indirect costs assigned via the indirect cost rate. For example, if your organization has a 4.0% indirect cost rate and spends \$48,000 in salaries, benefits, travel and supplies for a specific program, it can be assumed that it costs an additional \$1,920 to provide services such as payroll processing, human resource management, supply requisitioning, etc. to the program. The complete cost of the program is \$49,920.

When an organization has an approved indirect cost rate, it is allowed to assign a value for indirect costs to grants or projects. In the majority of grants, it is permissible to request reimbursement for both direct and indirect costs to the extent of the grant award. Your organization may be able to increase the dollars recoverable on grants by using an approved indirect cost rate.

What is the process for obtaining approved indirect cost rates?

In the spring of each year, the Office of Financial Management sends Form DS-4524 to each Intermediate School District. The form contains a recap of the district's financial data from the preceding fiscal year on which to base the following fiscal year's indirect rates. If the district is interested in obtaining approved indirect cost rates, it is their responsibility to complete the form and submit it for review and approval.

Instructions for completing DS-4524 for 2004-2005 indirect cost rates:

1. Verify the data on the DS-4524: The expenditure information provided on Form DS-4524 represents fiscal year 2002-2003 Form B data. (Note that only food service expenses are included in the School Service Fund column.) Indirect and direct cost information provided on the Carryforward Computation sheet has been extracted from the Carryforward Computation sheet used in computing the 2002-2003 indirect cost rates. Please verify the accuracy of the data. Contact Lori Schomisch at (517) 335-0539 if the information is not correct.

It is intended that the Department provide as much of the information needed for the indirect cost rate process as possible. For that reason, the capital outlay information that is retrievable from the Form B is supplied under the column labeled "Excluded Cap Outly."

2. Classify Costs: The number reported in the Total Costs column must be classified as Excluded, Direct and Unallowable, or Unrestricted Indirect. Restricted Indirect can be obtained by subtracting expenditures related to Operations and Maintenance and the Chief Executive Offices from the Unrestricted Indirect value.

When determining how expenditures should be classified, it may be helpful to ask the following questions:

- A. Can the costs be identified specifically with one program or activity? If so, the costs are considered to be **direct costs**.
- B. Do the expenditures pertain to:
 1. The school board,
 2. Contributions or donations, or
 3. Entertainment?If so, the expenditures are considered **unallowable**.
- C. Do the costs relate to:
 1. Capital outlay,
 2. Interest or debt service,
 3. Judgments,
 4. Fines or penalties,
 5. Bad debts,
 6. Election expenses,
 7. Food for food service,If so, the costs are considered to be distorting and are classified as **excluded costs**.
- D. Do the costs benefit all programs in general and cannot be readily identified with any program? If so, the costs are **unrestricted indirect costs**.

- E. Subtract from the unrestricted indirect costs any expenditures related to Operations and Maintenance and the Chief Executive Officer's immediate office, including any Deputies or similar offices and their immediate support staff. This is the value of **restricted indirect costs**.
3. Provide Documentation to Support the Classification: Because it is not always possible to understand what costs are being included in the indirect cost pool, a document supporting the amounts classified as excluded and indirect is required. A sample worksheet is included with these instructions. Any type of worksheet is acceptable as long as the information supplied is understandable.
- Often, in smaller organizations, the Chief Executive Officer also performs duties more consistent to those allowed in the restricted indirect cost pool. If this is the case within your organization, the costs of the Chief Executive Offices associated with accounting, auditing, budgeting, personnel, purchasing, employee relations, etc., can be included in your restricted indirect cost pool. Time studies must support the allocation; and if more than 50% of the Chief Executive Officer's or their administrative support's time is included, documentation supporting the percentage used must also be provided.
4. Total and Check the Columns on the DS-4524: Total the "Other Excluded," "Direct and Unallowable," "Indirect Restricted," and "Indirect Unrestricted" columns. The sum of "Excluded Cap Outly," "Other Excluded," "Direct and Unallowable," and "Indirect Unrestricted" should equal "Total Costs." The "Indirect Restricted" column should be less than the "Indirect Unrestricted" column because the restricted values are a subset of the unrestricted values. The totals of the columns will be used on the Carryforward Computation sheet.
5. Complete the Carryforward Computation Form: Using the totals of the columns on the DS-4524, complete the following:
1. Direct Costs: Restricted = "Direct and Unallowable" + "Indirect Unrestricted" - "Indirect Restricted"
 1. Direct Costs: Unrestricted = "Direct and Unallowable"
 2. Indirect Costs Based on Rate: both Restricted and Unrestricted = Direct Costs from line 1 multiplied by the 2002-2003 approved rate provided
 3. Actual Indirect Costs: Restricted = "Indirect Restricted"
 3. Actual Indirect Costs: Unrestricted = "Indirect Unrestricted"
 4. 2000-2001 Fixed Carryforward: Provided

5. Total Indirect Costs: both Restricted and Unrestricted = Actual Indirect Costs from line 3 less 2000-2001 Fixed Carryforward from line 4
6. Over/(Under) Recovery: both Restricted and Unrestricted = Indirect Costs based on Rate from line 2 less Total Indirect Costs from line 5
7. Actual Indirect Costs: both Restricted and Unrestricted = Same value as on line 3
8. 2004-2005 Fixed Carryforward: both Restricted and Unrestricted = Value of the Over/(Under) Recovery from line 6
9. Adjusted Indirect Costs: both Restricted and Unrestricted = Total Indirect Costs from line 7 less the 2004-2005 Fixed Carryforward from line 8
10. Actual Direct Costs: both Restricted and Unrestricted = Actual Direct Costs from line 1
11. Rate for 2004-2005: both Restricted and Unrestricted = Adjusted Indirect Costs from line 9 divided Actual Direct Costs from line 10

The Michigan Department of Education limits Restricted and Unrestricted Indirect Costs Rates to a maximum of 15%, therefore, if your calculation exceeds 15%, use 15%.

6. Transfer the rates to the "Certification and Request for Authorized Indirect Cost Rates" form: Complete the certification form with the requested information. You are certifying the accuracy and consistency of the information provided. You are also certifying that cost charged to a federally-supported program have not been included in the indirect cost pool.
7. Forward the forms to the Department of Education: Forward Form DS-4524, the Certification and Request for Authorized Indirect Cost Rates, the Carryforward Computation form and supporting worksheets to:

Michigan Department of Education
Office of Financial Management
ATTN: Lori Schomisch
P.O. Box 30106
Lansing, MI 48909

Completed forms are due on or before May 30, 2004.

Other Information:

1. Michigan schools indirect cost rates are “fixed” rates, meaning the rates are based upon previous year’s activity and a carryforward amount is included in the calculation to adjust the rates for actual results. While the calculation for the carryforward is cumbersome, it is necessary to comply with U.S. Department of Education requirements.
2. Records and documentation supporting the indirect cost proposal must be retained for a period of five years after the last day of the fiscal year to which the proposal applies.

Questions or Comments:

Your questions and concerns regarding indirect cost rates are welcome. Please contact Lori Schomisch at (517) 335-0539 or e-mail at schomischl@michigan.gov.

ISD Name:			
Intermediate School District Support for DS-4524			
Excluded Costs:	Description of Excluded Costs		Amount
Instructional			
Instructional Support Services			
General Administration			
Business Office			
Operations and Maintenance			
Transportation			
Other Support			
Community Service			
Food Service			
Total Excluded			
Indirect Costs	Description	Restricted Amount	Unrestricted Amount
General Administration			
Business Office			
Operations and Maintenance			
School Plant Planning			
Other Support			
Total Indirect			

**Michigan Department of Education
Office of Financial Management
P.O. Box 30106
Lansing, Michigan 48909**

**Intermediate School District
Certification and Request for Authorized Indirect Cost Rates**

Legal Name of I.S.D.: _____

Address: _____

City: _____ State: Michigan Zip: _____

District Number: _____

I hereby certify as the responsible official of said intermediate school district that the information contained in this indirect cost rate application for the fiscal year ending June 30, 2005, is correct and was prepared in accordance with state requirements subject to specific grant limitations. I further certify that a consistent approach has been followed in treating a given type of cost as direct or indirect and that in no case have costs charged as direct costs of federally-supported programs been included as indirect costs. I hereby apply for the following indirect cost rates:

Restricted Rate: _____ Unrestricted Rate: _____

Signature of Responsible Official

Date

Typed Name of Responsible Official

Title

Contact Person

Contact Person's Telephone Number

Contact Person's Fax Number